

TO PROVIDE REVENUE FOR WAR PURPOSES

HEARINGS

BEFORE THE

COMMITTEE ON FINANCE UNITED STATES SENATE

SIXTY-FIFTH CONGRESS

THIRD SESSION

ON

H. R. 12863

TO PROVIDE REVENUE, AND FOR OTHER PURPOSES

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TO PROVIDE REVENUE FOR WAR PURPOSES.

WEDNESDAY, DECEMBER 4, 1918.

UNITED STATES SENATE,
COMMITTEE ON FINANCE,
Washington, D. C.

The committee met, pursuant to call, at 10.30 o'clock a. m., in room 308-B, Senate Office Building, Senator F. M. Simmons presiding.

Present: Senators Simmons (chairman), Smith, Thomas, Gore, Jones, Gerry, Robinson, Penrose, Lodge, Smoot, La Follette, Townsend, and Dillingham.

STATEMENT OF HON. WILLIAM G. M'ADOO, SECRETARY OF THE TREASURY, WHO WAS ACCOMPANIED BY HON. R. C. LEFFINGWELL, ASSISTANT SECRETARY OF THE TREASURY, AND HON. GEORGE R. COOKSEY, ASSISTANT TO THE SECRETARY OF THE TREASURY.

The CHAIRMAN. The committee will please come to order.

Secretary McAdoo is here in response to a request I made at the instance of the members of the committee, after a general expression on the part of the committee that they would like to confer with the Secretary a little further with reference, as I understood it, to the estimates that he had heretofore presented to the committee.

I believe Senator Penrose made the first request for the Secretary's presence, and probably he has some line that he desires to inquire about.

Senator PENROSE. As I understood when the Secretary was here several weeks ago, which was soon after the signing of the armistice, he seemed to be unable, or at least not in a position to give any detailed statement of any kind as to reduced estimates. And I had a feeling, and I think others on the committee also had a feeling, that if we were to be called on to vote for this large sum, and more particularly for the bill for 1920, that we at least ought to know just how much money the Government is going to require in taxes and in loans.

Mr. Secretary, are you in any better position to-day than you were when you were last here to give the committee a statement in detail as to the estimates?

Secretary M'ADOO. My annual report has been submitted to the Congress to-day, and that gives the estimates based upon the estimates of the various departments. Those figures were prepared by the departments under great difficulties, and in the face of much

uncertainty, the armistice having just been signed, and in my judgment do not accurately forecast the condition of the Treasury for the years 1919 and 1920. As stated when I was previously before the committee, the Treasury estimates the expenditures for 1919 at \$18,000,000,000, while the departmental estimates for that year, exclusive of transactions in the public debt, aggregate \$25,000,000,000. . I think the latter figure is excessive.

Senator LODGE. Did you say \$25,000,000,000?

Secretary McADOO. Our Treasury estimate is that expenditures will be \$18,000,000,000 in the fiscal year 1919. Those figures are based upon the actual experience of the Treasury Department. As you know, the experience of the Treasury has been a safer guide as to estimates of expenditures than have been the estimates made by the various departments, or the appropriations and authorizations of the Congress.

Senator PENROSE. If the war had continued you would have spent \$25,000,000,000?

Secretary McADOO. If the war had continued we expected to spend \$24,000,000,000, but now we expect to spend \$18,000,000,000.

Senator LODGE. For the fiscal year ending June 30, 1919?

Secretary McADOO. Yes.

Senator SMOOT. That is the same statement you made before the committee when you last appeared.

Senator PENROSE. Let your estimates be read.

Senator SMOOT. I would like to ask some questions on this statement which I hold in my hand and have all your explanations appear in the report of this hearing at one place.

Senator PENROSE. I have not heard the Secretary's estimates, which he says appear in his annual report to be submitted to the Congress to-day, and therefore probably can not understand them unless they are read here.

Secretary McADOO. If you will excuse me a minute, I did not finish my statement, and was going to answer the Senator's question. My annual report is to be submitted to the Congress to-day, and it will contain the estimates prepared by the various departments. I should be very glad to have incorporated in my statement here the estimates as submitted to the Congress. I think we might take a summary of those estimates from pages 143 to 145 of my printed report.

Senator PENROSE. If you have any other copies of that advance report I would like to have one.

Secretary McADOO. You will find the estimates beginning at the open page of the copy of my report, which I now hand you. The estimate of \$25,000,000,000, which I have just stated as being the departmental estimates, is the result after deducting estimated public debt disbursements amounting to \$2,540,000,000; that would leave \$25,000,000,000. But we believe the expenditures for the year will be closer to \$18,000,000,000.

Senator LODGE. For the fiscal year ending June 30, 1919?

Secretary McADOO. Yes.

Senator SMOOT. Does that include the amounts you are to advance to the allies?

Secretary McADOO. That includes what we expect to be advanced to the allies.

Senator DILLINGHAM. How much do you expect to advance to them?

Secretary McADOO. It is hard to estimate, but perhaps an additional \$1,000,000,000 will be needed.

Senator DILLINGHAM. That will be, in round numbers, \$4,000,000,000?

Secretary McADOO. For the year, it will be less than \$4,000,000,000.

Senator LODGE. Does that include those gifts of aid to Belgium and northern France which the President recommended in his message?

Secretary McADOO. Well, we are making no gifts, you understand; they are all loans.

Senator LODGE. I did not mean exactly gifts, but the President spoke of help in order that they might resume their economic life. I did not know whether that was included in the \$1,000,000,000 or was to be something additional.

Senator SMITH. Those were priority facilities, to furnish them the things that they require.

Senator LODGE. I thought the President recommended certain gifts, or aid, or loans?

Senator SMITH. They will be loans.

Senator LODGE. I want to know whether that is included in the \$1,000,000,000 or is in addition?

Senator SMOOT. As I understand it is not included in the \$4,000,000,000.

Senator SMITH. I did not understand that the President meant a gift of money, but assistance by way of granting priorities in the furnishing of machinery, equipment, and supplies.

Senator LODGE. I have not a copy of the message here, but as I understood the President's recommendations they involved some additional money aid to Belgium and northern France.

Senator SMOOT. I have a copy of the message here, and will read what the President said:

May I not say a special word about the needs of Belgium and northern France? No sums of money paid by way of indemnity will serve of themselves to save them from hopeless disadvantage for years to come. Something more must be done than merely to find the money. If they had money and raw materials in abundance to-morrow they could not resume their place in the industry of the world to-morrow—the very important place they held before the flame of war swept across them. Many of their factories are razed to the ground. Much of their machinery is destroyed or has been taken away. Their people are scattered and many of their best workmen are dead. Their markets will be taken by others, if they are not in some special way assisted to rebuild their factories and replace their lost instruments of manufacture.

Senator LODGE. I want to find out just what the President does mean.

Senator SMOOT (continuing). He says:

They should not be left to the vicissitudes of the sharp competition for materials and for industrial facilities which is now to set in. I hope, therefore, that the Congress will not be unwilling, if it should become necessary, to grant to some such agency as the War Trade Board the right to establish priorities of export and supply for the benefit of these people whom we have been so happy to assist in saving from the German terror, and whom we must not now thoughtlessly leave to shift for themselves in a pitiless competitive market.

Of course, in order to do this if we sell them goods and extend them credits we will advance them money by loans.

Senator SMITH. What the President was considering was the giving of priorities.

Secretary McADOO. Senator Smoot has spoken of \$4,000,000,000, in round numbers, as the amount of loans to foreign Governments this year. I think it is more likely to be \$3,000,000,000.

Senator SMOOT. I thought from what you said before it would be \$4,000,000,000. In addition, you have already advanced \$8,200,000,000, in round numbers. And there is a balance of seven months before the close of the fiscal year, or nearly seven months. At the beginning of this fiscal year there had been advanced, I do not remember just how much, but anyhow between \$5,000,000,000 and \$6,000,000,000; and I take it for granted if the same proportion of advances as have been made from the beginning of this fiscal year are made during the balance of the year, \$4,000,000,000 would be about the right estimate?

Secretary McADOO. When I was here before \$4,000,000,000 seemed to be the probable amount, but developments since then make it appear that the expenditures of the United States in France and Great Britain will reduce loans to those countries.

Senator LODGE. Do you mean in the matter of exchange?

Secretary McADOO. We pay them dollars here for sterling or francs they provide us. This procedure correspondingly reduces their requirements for loans.

Senator SMOOT. What I would like for you to tell the committee is this: Do you expect now through this bill, if we raise \$6,000,000,000 by it, to sell \$5,000,000,000 or \$6,000,000,000 of bonds to cover the indebtedness for the calendar year ending June 30, 1919?

Secretary McADOO. Yes; with \$6,000,000,000 from taxes the Treasury would be able to finance the remainder through the sale of bonds.

Senator SMOOT. Your position is, that that will cover all expenditures up to the end of the fiscal year?

Secretary McADOO. Yes. In other words, I think with \$6,000,000,000 raised by taxation, and with approximately \$7,000,000,000 already secured through the fourth liberty loan, we can raise the balance of the estimated \$18,000,000,000 by loans. It seems to me, Senator Smoot, that that is as large a part of the expenditures as we should properly and with safety in the circumstances meet in the form of taxation.

Senator SMOOT. I agree with you, Mr. Secretary, if the expenditures of the Government only amount to the \$14,000,000,000 and the advances of \$4,000,000,000, making a total of \$18,000,000,000, that that proportion to be raised by taxation is absolutely correct. But what I want to get at is, not only whether that \$18,000,000,000 is sufficient, but to get some information on the appropriations already made, in order to see if we can arrive at that amount with as little doubt in our minds as possible.

Then, also, I would like to ask some questions in relation to the estimates that have already been presented to the Committee on Appropriations for the fiscal year ending June 30, 1920. I have a tabulation of some estimates, which I would like to put in the hearing:

Estimates of appropriations, 1919-20.

Agriculture.....	\$30,048,786.00
Army.....	1,916,905,572.16
Diplomatic and Consular.....	11,042,236.66
District of Columbia.....	15,928,819.00
Fortification.....	574,237,273.30
Indian.....	11,939,813.89
Legislative, etc.....	116,021,816.83
Military Academy.....	6,032,862.70
Navy.....	2,644,307,046.05
Pension.....	220,050,000.00
Post Office.....	358,307,577.00
River and harbor.....	15,870,500.00
Sundry civil.....	902,231,235.48
<hr/>	
Total regular estimates.....	6,822,923,539.07
Permanents and indefinites.....	1,266,743,759.00
<hr/>	
Total regular, and permanent and indefinite estimates.....	8,089,667,298.07
Deduct sinking-fund requirements.....	287,943,883.00
<hr/>	
	7,801,723,415.07
Deduct Postal Service, payable from postal revenues.....	358,307,577.00
<hr/>	
Total.....	7,443,415,838.07

Secretary McADOO. Now, with respect to the accuracy of the estimates, I think, gentlemen, that the safest guide is the experience of the Treasury as represented by the actual expenditures of the Government. If you will review the estimates of the Treasury submitted to the Congress you will find that they have been the surest index to the future. I can not give you anything better than that; no one can give you anything better than that.

Senator SMOOT. I am going to ask you about those.

Secretary McADOO. \$18,000,000,000 for 1919 is the best possible estimate that can be made at this time.

Senator SMOOT. I want to get at the appropriations that we made for the fiscal year ending June 30, 1919. The regular appropriations that were made amounted to \$27,092,094,720.75.

Then there was appropriated by way of contracts to be met by future appropriations \$9,027,441,362.

Senator LODGE. Those are actual appropriations?

Senator SMOOT. Yes; total appropriations amounted to \$36,192,536,082.75.

The CHAIRMAN. Mostly war contracts?

Senator SMOOT. I will tell you what they were, and will only give round numbers by billions and millions:

Army.....	\$8,158,000,000
Fortifications.....	2,340,000,000
Navy.....	2,343,000,000
Rivers and harbors.....	82,700,000
Sundry civil bill, containing about a thousand items, which I have separated, but there is no earthly need for going into them.....	945,540,000

Senator PENROSE. Do you remember some of the principal items of the sundry civil bill; that is, for each appropriation?

Senator SMOOT. Oh, it was for building cantonments, and for the expenditures for building railroads in France, and building cold-storage plants, three of the largest in the world, and they are virtually completed to-day; and, as I say, thousands of other items.

Senator THOMAS. More sundry than civil.

Senator SMOOT. Yes. And in the deficiency bill, that is, the first deficiency bill, \$1,250,000,000. And in the first deficiency bill for 1919; that is, the last one that we passed, there was \$3,844,511,000. And then for Public Health Service, \$9,027,441.

Senator PENROSE. All authorizations.

Senator SMOOT. Yes.

The CHAIRMAN. We are now dealing with expenditures.

Senator SMOOT. I will get to them; I want to draw a conclusion.

The CHAIRMAN. I had always understood you as contending that notwithstanding we had appropriated certain billions of dollars, it would be impossible to expend in this fiscal year anything like that much.

Senator SMOOT. I have that in mind, but want to get it all.

Senator GERRY. Give me that Navy amount again.

Senator SMOOT. Do you want the authorization?

Senator GERRY. Yes.

Senator SMOOT. \$2,343,000,000. Now, Mr. Secretary, I want in connection with this to call attention to the estimates and then to ask certain questions in relation to these authorized contracts, for information: Your Book of Estimates asked for total appropriations of \$8,089,667,298.07. That is, I have gone through each one of the appropriations asked for in the Book of Estimates.

Senator LODGE. That is for the year 1919-20?

Senator SMOOT. Yes. Now, in round numbers the amounts are—

Army.....	\$1, 916, 000, 000. 00
Diplomatic and Consular.....	11, 000, 000. 00
District of Columbia.....	15, 000, 000. 00
Fortifications.....	574, 000, 000. 00
Indian affairs.....	11, 000, 000. 00
Legislative, etc.....	116, 000, 000. 00
Military Academy.....	6, 000, 000. 00
Navy.....	2, 644, 000, 000. 00
Pensions.....	220, 000, 000. 00
Post Office.....	358, 000, 000. 00
Rivers and harbors.....	15, 000, 000. 00
Sundry civil.....	902, 000, 000. 00

Total of regular estimates in book..... 6, 822, 923, 539. 00

Then there are permanents and indefinites which amount to \$1,266,743,759.

Senator PENROSE. What is that?

Senator SMOOT. Oh, one of the largest items is that of sinking fund deduction, \$287,943,833. That is a fund required by law under the act of way back in the '16's, that we never pay any attention to.

Senator GORE. I thought we repealed that?

Senator SMOOT. We have in the Senate, but the House will not pass it. Then the great bulk of the balance is interest on the public debt, which is \$893,000,000 estimated for the year. Now, if you want to deduct the sinking fund that we never take into consideration at all, of \$287,000,000, in round numbers, and deduct for the Postal Service, that is, the estimated amount we collect, because I put it in the above estimate, there would be left the sum of \$7,443,415,838.07 estimated to be appropriated for the fiscal year ending June 30, 1920.

Senator PENROSE. 1919 or 1920?

Senator SMOOT. No; 1920. I want to ask the Secretary if he knows anything about these contracts; that is, these authorized contracts made for the fiscal year ending June 30, 1919? For instance, do you know what proportion of this authorized appropriation for the Army of \$1,858,000,000 has been let, and if so, how much of it will be carried on to completion?

Secretary McADOO. No; we in the Treasury Department know nothing about that.

Senator SMOOT. Do you know whether any part of it has been let?

Secretary McADOO. I do not. I should suggest that you ask the Secretary of War. I have no knowledge of expenditures in that department, nor of their estimates, beyond what they send me. The appropriation committees get full data. All that the Treasury does in the matter is to transmit the estimates to the Congress as they are presented by the departments. After the Congress makes the appropriations, the Treasury, of course, has no control over disbursements, but it does know what is being paid out of the Treasury on account of appropriations.

Senator SMOOT. But if the contracts are let there is not doubt but what a great portion of this \$9,000,000,000 is under way in the matter of construction. And if that is so then we have to take that into consideration when we say what the expenses of our Government will be for 1920?

Secretary McADOO. Precisely.

Senator SMOOT. I wanted to know how much of this authorized appropriation has been actually let to contract, and how far the contracts have proceeded?

Senator LODGE. And how far they may be reduced?

Senator SMOOT. Yes.

Secretary McADOO. The best estimate that I can give you is the Secretary of War's own estimate of what the War Department will spend in 1920. His estimate is \$1,978,837,458 for the fiscal year 1920, which includes: Military Establishment, \$1,944,185,965; rivers and harbors, \$23,000,000; miscellaneous—war, civil, \$11,651,493. That is his estimate of expenditures.

Senator SMOOT. I know his estimate, because I have it here. That is the estimate he is asking appropriations for.

Secretary McADOO. No; his estimate of expenditures.

Senator SMOOT. These figures I took as the estimates asked for as shown by the book of estimates.

Secretary McADOO. No; that is his estimate of expenditures. You will find the data on pages 145, 146, and 147 of my annual report submitted to the Congress to-day.

Senator TOWNSEND. That is the one that has not been printed yet?

Secretary McADOO. It is going in to-day, and copies of it will be available. Therein you will find an estimate of receipts and disbursements for the fiscal year 1920, the estimates of disbursements being based upon figures furnished by the several departments.

Senator LA FOLLETTE. What is the date of the estimate which was made upon which the appropriations were made, and what is the date of the estimate of disbursements? There is a considerable space of time that elapses between those two estimates, I take it.

Secretary McADOO. Mr. Cooksey will answer that.

Assistant to Secretary COOKSEY. I think the date of the latest estimates is November 19, 1918.

Secretary McADOO. They have been brought up to the most recent date possible.

Senator LA FOLLETTE. We are able to correct the most of the expenditures by the estimates of disbursements which the Secretary of War is sending us.

Senator SMOOT. I think they are larger than the Book of Estimates.

Secretary McADOO. My report is based upon the latest figures that we have from the departments.

Let me say, gentlemen, that events are moving so swiftly that, of course, it is very difficult for the War Department to say with precision what its disbursements are going to be. But we all know that after the war there is bound to be diminishing expenditure rather than an increasing expenditure, and making allowance for the changed situation the figures submitted represent the best estimate of the departments at the time they were presented.

Senator LODGE. Mr. Cooksey, in talking to us outside the record a few moments ago, drew a distinction between estimates of appropriations and estimates of expenditures. Mr. Secretary, you read the estimates of expenditures from the War Department a little while ago; will you give them to me?

Secretary McADOO. Yes; total estimated expenditures by the War Department for the fiscal year ending June 30, 1920, \$1,978,837,458.

Senator LODGE. That is their estimate of expenditures?

Secretary McADOO. Yes.

Senator SMOOT. That includes rivers and harbors of \$22,000,000, and so forth.

Senator LODGE. Let me get that. The amount is—but I have the items before me now, I believe, and they are just the same, are they?

Assistant to Secretary COOKSEY. I do not recall the Secretary of War's estimate of appropriations.

Senator LODGE. You were drawing a distinction between estimates for appropriations and estimates of expenditures?

Assistant to Secretary COOKSEY. The Secretary of War on the 19th of November estimated that he would spend the amount stated by the Secretary, and I had assumed that that was not as great as the estimated appropriations.

Senator SMOOT. Added together they are very nearly the same.

Senator LODGE. I see here "Rivers and harbors, \$15,870,500." Have they added to that? If not, where does the material difference come in?

Assistant to Secretary COOKSEY. The \$1,978,000,000, in round numbers, includes the military establishment, rivers and harbors, and miscellaneous.

Senator LODGE. Do you mean that if we take the estimate of the Secretary of War of \$1,960,000,000, in round numbers, and add the Panama Canal and Rivers and Harbors, which are included in these estimates of expenditures, they are virtually the same?

Assistant to Secretary COOKSEY. I do not know because I have not the estimates of appropriations before me but I shall look them up.

Secretary McADOO. I have had a table prepared and would like to introduce it in this hearing as it may be of some service. It is a

“statement showing classified disbursements, exclusive of public debt, by months, from March 1, 1917, to November 30, 1918, as published in Daily Treasury Statements.”

Statement showing classified disbursements, exclusive of public debt, by months, from Mar. 1, 1917, to Nov. 30, 1918, as published in Daily Treasury Statements.

	Ordinary.	Foreign loans.	Other special.	Total.
March, 1917.....	\$72, 773, 903. 20		\$27, 176, 896. 12	\$99, 950, 799. 32
Apr. 1 to 5, 1917.....	10, 271, 591. 52		408, 584. 28	10, 680, 175. 80
Total Mar. 1 to Apr. 5, 1917.....	83, 045, 494. 72		27, 585, 480. 40	110, 630, 975. 12
Apr. 6 to 30, 1917.....	71, 328, 006. 70	\$200, 000, 000. 00	7, 885, 770. 50	279, 213, 777. 20
May, 1917.....	114, 102, 809. 68	407, 500, 000. 00	4, 962, 746. 28	526, 565, 555. 96
June, 1917.....	134, 304, 040. 35	277, 500, 000. 00	919, 445. 78	412, 723, 486. 13
Total Apr. 6 to June 30, 1917.....	319, 734, 856. 73	885, 000, 000. 00	13, 767, 962. 56	1, 218, 502, 819. 29
Total Mar. 1 to June 30, 1917.....	402, 780, 351. 45	885, 000, 000. 00	41, 353, 442. 96	1, 329, 133, 794. 41
July, 1917.....	208, 299, 031. 05	452, 500, 000. 00	1, 511, 814. 92	662, 310, 845. 97
August, 1917.....	277, 438, 000. 64	478, 000, 000. 00	2, 019, 363. 50	757, 457, 364. 14
September, 1917.....	349, 013, 305. 34	396, 000, 000. 00	1, 364, 980. 35	746, 378, 285. 69
October, 1917.....	462, 045, 359. 94	480, 700, 000. 00	1, 623, 392. 58	944, 368, 752. 52
November, 1917.....	512, 952, 035. 17	471, 929, 750. 00	1, 200, 022. 36	986, 081, 807. 53
December, 1917.....	611, 297, 425. 62	492, 000, 000. 00	1, 914, 433. 70	1, 105, 211, 859. 32
January, 1918.....	715, 302, 039. 83	370, 200, 000. 00	4, 854, 005. 86	1, 090, 356, 045. 69
February, 1918.....	675, 209, 068. 43	325, 000, 000. 00	12, 477, 917. 31	1, 012, 686, 985. 74
March, 1918.....	819, 955, 367. 26	317, 500, 000. 00	18, 338, 441. 98	1, 155, 793, 809. 24
April, 1918.....	910, 756, 758. 95	287, 500, 000. 00	17, 031, 020. 28	1, 215, 287, 779. 23
May, 1918.....	1, 068, 203, 026. 82	424, 000, 000. 00	15, 992, 206. 83	1, 508, 195, 233. 65
June, 1918.....	1, 263, 914, 905. 86	242, 700, 000. 00	5, 958, 796. 56	1, 512, 573, 702. 42
Total for fiscal year 1918.....	7, 874, 386, 324. 91	4, 738, 029, 750. 00	84, 286, 396. 23	12, 696, 702, 471. 14
July, 1918.....	1, 259, 782, 599. 23	343, 485, 000. 00	5, 015, 055. 21	1, 608, 282, 654. 44
August, 1918.....	1, 524, 901, 777. 74	279, 250, 000. 00	1, 361, 445. 28	1, 805, 513, 223. 02
September, 1918.....	1, 274, 505, 845. 05	282, 150, 000. 00	608, 440. 22	1, 557, 264, 285. 27
October, 1918.....	1, 174, 622, 406. 40	489, 100, 000. 00	1, 139, 854. 59	1, 664, 862, 260. 99
November, 1918.....	1, 655, 051, 004. 19	278, 949, 697. 70	1, 248, 607. 04	1, 935, 249, 308. 93
Total, July 1 to Nov. 30, 1918.....	6, 888, 863, 632. 61	1, 672, 934, 697. 70	9, 373, 402. 34	8, 571, 171, 732. 65
RECAPITULATION.				
Mar. 1 to Apr. 5, 1917.....	83, 045, 494. 72		27, 585, 480. 40	110, 630, 975. 12
Apr. 6 to June 30, 1917.....	319, 734, 856. 73	885, 000, 000. 00	13, 767, 962. 56	1, 218, 502, 819. 29
July 1, 1917, to June 30, 1918.....	7, 874, 386, 324. 91	4, 738, 029, 750. 00	84, 286, 396. 23	12, 696, 702, 471. 14
July 1 to Nov. 30, 1918.....	6, 888, 863, 632. 61	1, 672, 934, 697. 70	9, 373, 402. 34	8, 571, 171, 732. 65
Grand total.....	15, 166, 030, 308. 97	7, 295, 964, 447. 70	135, 013, 241. 53	22, 597, 007, 998. 20

Secretary McADOO. This statement shows the disbursements during that period. Now let us take the fiscal year beginning July 1, 1918, and ending June 30, 1919: For the first five months of this fiscal year we have expenditures totaling \$8,571,171,732.65; or, stated in round numbers, \$8,600,000,000.

Senator GORE. That is the better way to read those large figures, as, when read in detail, it confuses me.

Secretary McADOO. All right, Senator Gore. Stated in round figures, the total sum is \$8,600,000,000 as representing expenditures for the first five months of the fiscal year 1919, which is \$29,000,000 in excess of the actual disbursements for that time. That is, the round figure of \$8,600,000,000 exceeds the actual disbursements by the sum of \$29,000,000. That makes it clear to you, Senator Gore?

Senator GORE. Yes; and is so much more readily understood.

Secretary McADOO. The war was on for the most of that time, and all contracts which were in force were going forward, others were in contemplation, and perhaps some expenditures had been made on account of contracts that had been made but a short time before the war ended. I say perhaps, for I do not know. We spent, in round figures, \$8,600,000,000 in those five months. Now the war is over, and expenditures will show, very shortly I think, a considerable diminution monthly.

The peak of the expenditures shown here was reached in November, 1918, being the sum of \$1,935,249,308.93. That is the high figure of any month in the war. And that is very near the Treasury Department's forecast made some time ago. I mention that to show you that the estimates of the Treasury based upon experience as represented by actual outgo have been rather dependable.

It is safe to assume, I think, that for the next seven months of the fiscal year expenditures will approximate \$9,400,000,000, making a total for the fiscal year 1919 of \$18,000,000,000, including loans to foreign governments. I think that affords the nearest accurate basis for estimating expenditures for the fiscal year. I believe that it is safe to rely upon it in determining the amount of taxation for the year. If expenditures exceed that sum the credit of the Government is good, and we can finance the balance from the sale of bonds; if they are less than that sum, we shall have that much less to borrow. I think that \$6,000,000,000 is amply sufficient to be raised by taxation payable in 1919 and as much as we can justly impose upon the American people, especially in view of the period of readjustment ahead of us. For like reasons I have thought the burden of taxation could be safely reduced to \$4,000,000,000 payable in 1920.

Senator SMOOR. I want to say that I laid the foundation for the amount of tax in the present bill, based upon the appropriations made, with a view to seeing what we ought to raise in the year ending June 30, 1920, and finding out what your idea was as to how those expenses should be met. Do you think your estimates of \$7,000,000,000 after deducting sinking fund, if appropriations are made to cover that sum—

Secretary McADOO (interposing). Those are appropriations.

Senator SMOOR. I say, if the appropriations are made to cover your estimate of \$7,000,000,000, whether the Government will spend that amount of money or not.

Secretary McADOO. According to the estimates received from the several departments, the expenditures for the fiscal year 1920, including Panama Canal disbursements but not including public debt disbursements, would aggregate \$6,280,451,599; the total appropriations are estimated at \$7,443,000,000 in round numbers, including Panama Canal appropriations but excluding sinking fund and postal expenditures payable from postal revenues.

Senator SMOOR. My figures are \$7,443,415,838.07, excluding sinking fund and postal expenditures.

Secretary McADOO. That shows that you are as good a statistician as the experts of the Treasury Department.

Senator SMOOR. So we come to a basis of understanding as to the amount. What I want to get at is this: Does this take into consideration any advances that we may make to northern France and Belgium, as recommended by the President?

Secretary McADOO. The President has not made any recommendation for advances as I understand his message.

Senator PENROSE. Senator Smoot just read it.

Secretary McADOO. The President made no specific recommendation as to advances.

Senator SMOOT. No matter what the message means, these estimates do not include that?

Secretary McADOO. It includes no advances to foreign governments.

Assistant Secretary LEFFINGWELL. It is safe to say that in the book of estimates for this year there is an amount which would provide for any credits required for that purpose, if you choose to make it available for that purpose.

Secretary McADOO. Mr. Leffingwell means that in the present appropriation for advances to foreign governments there is a sufficient amount to make any advances to foreign governments that may be determined upon.

Senator SMOOT. That is true. I will agree with Mr. Leffingwell there. What I want to know is, the \$7,000,000,000 does not include any advances that we may make to northern France or Belgium or to others of our allies?

Secretary McADOO. The \$25,000,000,000 for this year includes it, of course, but for 1920 nothing is included.

Senator SMOOT. That is what I wanted the committee to understand.

Secretary McADOO. The estimate of disbursements for 1920 does not include it. Let me reiterate it, because I want you to keep in mind estimated disbursements separate and apart from appropriations. The estimated disbursements of \$6,000,000,000, in round figures, includes nothing for loans to foreign governments. If loans are made to foreign governments, of course we shall get their obligations for them. We might even finance foreign Governments in our markets, so that there would be no burden upon the Government; although I have believed, and still believe, it would be prudent to have some authorization after the return of peace which would be available for such loans if they become necessary. I think it is not necessary to take into account in considering the fiscal year 1920 any loans to foreign Governments. In no event will such loans be a burden upon us, because I think we can refinance them under conditions of peace without trouble if it is necessary for the United States Government to take them.

Senator THOMAS. In addition to that isn't this also to be taken into consideration: The question whether after a treaty of peace shall have been signed the United States Government has any constitutional power to lend its fund to a foreign Government. I think that is an important question.

Senator SMOOT. As far as this discussion is concerned let us say there will be no advances.

Senator LODGE. There is one thing I want to get clear and that I do not understand: Whether the authorizations of something over \$9,000,000,000 for expenditures on contracts would go on to the next fiscal year? That is, that was not appropriated this year. Mr. Smoot read out about contracts; are those all covered by the estimates?

Secretary McADOO. Yes; we covered everything which the War Department estimates it will spend.

Senator LODGE. I know that the Treasury covered it, but——

Secretary McADOO (interposing). That, of course, includes, as I understand it, a liquidation of such contracts as have been actually made and where liquidation is necessary, and a cancellation of such contracts as have not been perfected or in case of failure to go forward with the authorization.

Senator LODGE. What I want to get is, how much of the \$9,000,000,000 is obligated money we shall have to pay in the next fiscal year?

Secretary McADOO. The Secretary of War estimates \$1,978,000,000 for the year.

Assistant to the Secretary COOKSEY. Reverting to your former question, Senator Lodge, may I say that there is a difference between the estimated expenditures of the War Department and the estimated appropriations of that department. The Secretary of War estimates expenditures on account of the Military Establishment \$1,944,000,000, but his estimates of appropriations for 1920 on that account are \$2,500,000,000.

Senator SMOOT. That does not agree with the statement made there as to the amount of expenditures?

Senator LODGE. It does not agree with the estimates furnished the Committee on Appropriations.

Secretary McADOO. It is the same.

Assistant Secretary LEFFINGWELL. Expenditures do not agree with appropriations; no.

Senator SMOOT. You always ask for more appropriations than you spend; is that it?

Secretary McADOO. Appropriations are almost always larger than actual expenditures.

Senator SMITH. And especially in connection with war, when we can not always foresee what we may need. But the war is over, and these reductions are incident to peace.

Senator LODGE. How much of that obligated money that we have already appropriated for the purpose of paying for contracts in the future—how much has that been reduced?

Secretary McADOO. The War Department would have to give that information.

Senator LODGE. It is rather essential to know it.

Senator ROBINSON. I understood that it was still being reduced?

Secretary McADOO. The War Department has asked for a \$2,500,000,000 authorization—that is, an authorization to spend that much—and it estimates that it will spend less than that in the fiscal year 1920; and if less, so much the better. At the best, between War Department estimated appropriations and estimated expenditures, there is a difference of \$500,000,000. Suppose they spend \$2,500,000,000, it would not alter my views a particle as to the basis of taxation for 1920. I think that basis is amply sufficient.

Senator LODGE. Could it be known at this time how much we are going to save on contracts which were to be made and paid for in the future?

Secretary McADOO. I can not tell you.

Senator LODGE. Could it be known accurately? Isn't there a good deal of difficulty in closing up these contracts?

Secretary McADOO. The War Department probably can give you that information.

Senator GORE. They do not know for certain themselves, I take it.

Senator LODGE. How much will we have to pay, and how much can we get rid of?

Secretary McADOO. I can not say. Here is their estimate of expenditures, and they probably contemplate an adjustment of these contracts.

Senator LODGE. Well, that is it; and what I am trying to get at is, it is impossible for anybody to know accurately what the balance against us will be after the contracts are adjusted?

Secretary McADOO. It can not go beyond the \$2,500,000,000, and they say it will not go beyond \$1,900,000,000.

Senator GORE. I do not catch the distinction between them?

Secretary McADOO. One is the estimate for their appropriation; that is, the authorization they want, the power to expend \$2,500,000,000, and the other is, they expect disbursements of \$1,900,000,000 against such authorization.

Senator SMOOT. We can look that up in detail. I wanted to get some information if I could in relation to the \$200,000,000 that we appropriated for the purchase of Federal land bank bonds for this purpose; that whatever the purchases for the fiscal year ending June 30, 1920, it will have to be taken out of the Treasury, and I would like to know about how much that and other items will amount to?

Secretary McADOO. We authorized the purchase of \$200,000,000 in the two years, and of that \$200,000,000 they have used less than \$100,000,000. Have you got it there, Mr. Cooksey?

Assistant to Secretary COOKSEY. I shall give it to you in a moment.

Secretary McADOO. Let me say about farm loan bonds that I do not regard their purchase as an expenditure. Farm loan bonds are perfectly good, and we can sell them at any minute.

Senator SMOOT. But we are not selling them?

Secretary McADOO. The only reason they have not been sold this year was because I did not want to set up competition between the land banks and the Treasury Department in the sale of securities.

Land bank bonds carry a wider exemption than Liberty bonds.

Senator GORE. And carry a higher rate of interest. Wouldn't that be a good place to put our sinking fund?

Secretary McADOO. It might be. I feel that it would be wiser for the time being to take farm loan bonds for the Treasury, under the power to sell them at any opportune time that presents itself.

Senator SMOOT. Your policy would be to sell those?

Secretary McADOO. That would be my policy if I were not so soon to be an ex-Secretary.

Senator SMOOT. Let us assume that that will be the policy of the Treasury Department.

Secretary McADOO. I say it would be my policy if I were continuing in the office. But if it is not the policy of my successor it represents \$100,000,000 included in our estimates for 1919, but nothing for 1920.

Senator SMOOT. If they are here now, any of them after June 30, 1919, then they will have to come out of the Treasury for the calendar year 1920, and I wanted to know how much we have to provide for.

Secretary McADOO. Senator, I think that is not a matter to worry about, because the chances are we shall sell the bonds we already have, and let the land banks sell their bonds in the future. We have not estimated for the purchase of farm loan bonds in 1920. I think the situation will take care of itself; if not, we can sell the bonds we already have and invest the proceeds in more land bank bonds in 1920, and one would offset the other.

Senator SMOOT. What about the War Finance Corporation? They have loaned, I think, about \$71,000,000. They recommend in their report to Congress that the act be amended so that they can loan directly to institutions that will have to be carried during the reconstruction period. If that is the case it seems to me there will be added \$300,000,000 at least that will be used by that corporation?

Secretary McADOO. Well, Senator, I think that is not a matter to concern us very much, because, as a matter of fact, the War Finance Corporation would not have to draw on the Treasury. It could issue its own bonds and sell them, but would issue them, undoubtedly, in conjunction with the Treasury Department. That is, the issue would be so timed as to the offering, and the terms would be such, as not to conflict with Treasury loans.

Senator SMOOT. Could they sell their bonds now, as long as they have this capital stock for the purpose of making loans?

Secretary McADOO. I say, they could do it without drawing upon the Treasury for another dollar of capital. But they have ample capital.

Senator SMOOT. I know, but if they draw upon the Treasury for it the Treasury has to provide it?

Secretary McADOO. The point is, I think they will not have to do it in any case, because I think the corporation is in a position to finance anything it may undertake to finance without further drafts upon the Treasury. But any expenditures that may be made in that connection, or any further operations will depend upon congressional action. You may not grant it any further power; I do not know.

Senator SMOOT. Well, how about as far as they have the power now? It has five years after the close of the war?

Secretary McADOO. Oh, no; six months. They go into liquidation six months after the close of the war.

Senator SMOOT. The War Finance Corporation?

Secretary McADOO. Yes.

Senator SMOOT. They are making loans now for two years?

Secretary McADOO. Yes; the life of the corporation is 10 years, but it must go into liquidation six months after the close of the war. There will be no difficulty about that.

Senator SMOOT. No; I do not think there will be any difficulty about that.

Senator PENROSE. They will stop making new loans at the end of six months after peace is declared?

Secretary McADOO. Yes. It may be that you will, and I think at the proper time you should, consider the question of extension. If I were going to remain in charge of the Treasury Department I should bring the matter to your attention. I think it might be very beneficial and a wise thing to enlarge the power of the War Finance Corporation under proper limitations so that it could continue to

give financial assistance for a longer period after the return of peace. I am not prepared now to suggest amendments that would be necessary to carry out what I think may be desirable. The new Secretary of the Treasury will have to make those suggestions to you. That is a matter for you to deal with, and it does not enter into our calculations now.

Senator SMOOT. Then your policy would be this, that the expenses of the Government for the calendar year ending June 30, 1920, are to be met by a tax bill of \$4,000,000,000 and a sale of bonds or short-time securities to cover the balance?

Secretary McADOO. To borrow the remainder; yes.

Senator SMOOT. Whatever it may be?

Secretary McADOO. Yes.

Senator SMOOT. Whether \$3,000,000,000 or \$5,000,000,000?

Secretary McADOO. It is perfectly clear to my mind that the position of the Treasury will be entirely safe with a \$4,000,000,000 tax bill, and I think it is very important that the tax burden shall be reduced as much as possible. I am sure that with a \$4,000,000,000 tax bill the remainder of the Government's necessities, whatever they are, can be financed with loans.

Senator SMOOT. Oh, I have no doubt but what the Government can sell the bonds.

Secretary McADOO. I also think that in the very near future, as soon as the dimensions of our national debt are more definitely ascertained, we should provide an adequate sinking fund. It would be stupid to build up a paper sinking fund like the old one; in fact, I think it would be a reflection upon our intelligence as a Nation. If I were going to remain in office I should urge such provision to be made. We do not take the question of a sinking fund into consideration to-day; it is a matter for the future.

Senator SMOOT. The drafts upon the Treasury in September were about \$2,000,000,000?

Secretary McADOO. No; in November, 1918, a little under \$2,000,000,000, which was the peak of the expenditures. The expenditures for November were \$1,935,000,000, in round numbers.

Senator SMOOT. I asked for September, 1918?

Secretary McADOO. Oh, in September they were \$1,557,000,000, in round numbers.

The CHAIRMAN. That includes loans to the allies?

Secretary McADOO. Yes. You will find this very interesting statement in the hearing when printed, and I suggest that you read it, because it shows exactly the operations of the Treasury in the matter of expenditures since the war began.

Senator LA FOLLETTE. Does it show bond issues?

Secretary McADOO. No; this simply shows disbursements.

Senator SMITH. Does it appear in the report you have made to the Congress to-day?

Secretary McADOO. No; it will go in the minutes of this committee hearing.

Senator SMITH. Your expenditures for the seven months remaining of the fiscal year are estimated to be something over \$9,000,000,000?

Secretary McADOO. About \$9,400,000,000, according to the estimates.

Senator TOWNSEND. How do you get the estimate of \$9,000,000,000 for the remaining seven months of the fiscal year?

Secretary McADOO. On the basis of expenditures of the Treasury up to the present time. These figures have been the surest guide.

Senator TOWNSEND. How could you do that with the new conditions which have arisen, and when the old conditions will not be maintained?

Secretary McADOO. For the next seven months I made a very liberal estimate for a monthly average, under peace conditions, when expenditures are bound to be less than under war conditions.

Senator TOWNSEND. How have you dealt with the expenses for the civil government, cutting out war conditions?

Secretary McADOO. In the estimate, based upon the expenditures of the Treasury for the period since the war began up to date, civil expenditures were included, of course, just as other expenses were included—foreign loans, and everything else. We know that expenditures can not be as great under peace conditions as under war conditions; that is evident. They are bound to diminish.

Senator TOWNSEND. Yes; but you have reduced them only about \$3,000,000,000?

Secretary McADOO. \$1,340,000,000 as an average expenditure for the next seven months, I think, is about correct.

The CHAIRMAN. You have only spent more than that for the last few months?

Secretary McADOO. Under war conditions it was more than a year before the expenditures reached \$1,508,000,000 for a month. Under the new conditions I am estimating an average monthly expenditure of \$1,340,000,000 for the next seven months. I should think that was reasonably accurate. The expenditure during the earlier of the seven months will be much more and later should be less.

Senator LA FOLLETTE. I suppose I can find it in your report, which I have not seen, of course, but will you give me the amounts of the first, second, third, and fourth issues of bonds?

Secretary McADOO. By loans?

Senator LA FOLLETTE. Yes.

Secretary McADOO. I shall ask Mr. Cooksey to give me the figures in detail.

Assistant to Secretary COOKSEY. Here they are.

Secretary McADOO. They are as follows:

Liberty bonds.

Authorizations.....		\$22, 000, 000, 000
First loan, original allotment.....	\$2, 000, 000, 000	
Second loan, original allotment.....	3, 808, 766, 150	
Third loan, original allotment.....	4, 176, 516, 850	
Fourth loan, original allotment.....	6, 989, 047, 000	
		<u>16, 974, 330, 000</u>
Balance.....		5, 025, 670, 000

Senator LA FOLLETTE. What is the total amount of war-savings certificates outstanding at the present time?

Secretary McADOO. Up to November 1, something over \$800,000,000 cash purchase price, but of maturity value I should say, approximately \$1,000,000,000.

Senator LA FOLLETTE. What is the amount of Treasury certificates outstanding?

Secretary McADOO. That is changing every week.

Senator LA FOLLETTE. I understand, but what are the latest figures you have on the subject?

Secretary McADOO. I shall have to get those figures.

Issues of Treasury certificates of indebtedness.

[Apr. 6, 1917, to Nov. 30, 1918.]

Regular issues:

In anticipation of the first liberty loan.....	\$868, 205, 000
In anticipation of the second liberty loan.....	2, 320, 493, 000
In anticipation of the third liberty loan.....	3, 012, 085, 500
In anticipation of the fourth liberty loan.....	4, 659, 820, 000
In anticipation of internal-revenue taxes, 1918.....	1, 624, 403, 500
In anticipation of internal-revenue taxes, 1919.....	951, 725, 000
Total regular issues.....	13, 436, 732, 000
Special issues, short maturities.....	2, 215, 000, 000
Special issues, to secure Federal reserve bank notes.....	73, 712, 000
Total all issues.....	15, 725, 444, 000
Total amount of certificates of indebtedness outstanding in accordance with records entered in Daily Treasury Statements to Dec. 3, 1918.	2, 340, 617, 000

Senator LA FOLLETTE. While that is being looked up I will ask how much has been advanced to the allies? Have you got the information by countries in your report?

Secretary McADOO. Yes; it is in the report by countries. Cash advances up to November 29, 1918, amounted to \$7,296,039,447.70.

Senator LA FOLLETTE. Please insert that in the report of this hearing, by countries.

Secretary McADOO. I shall be glad to do so. Here is a statement of foreign loans up to November 29, 1918, showing the credits extended to the various countries and the amounts actually advanced against such credits up to that date:

Loans to foreign Governments.

[Nov. 29, 1918.]

Country.	Credits established.	Cash advances.	Other charges against credits.	Balance under established credits.
Belgium.....	\$210, 120, 000. 00	\$185, 495, 000. 00	.....	\$24, 625, 000. 00
Cuba.....	15, 000, 000. 00	10, 000, 000. 00	.....	5, 000, 000. 00
Czecho-Slovak.....	7, 000, 000. 00	5, 000, 000. 00	.....	2, 000, 000. 00
France.....	2, 445, 000, 000. 00	2, 010, 000, 000. 00	\$200, 000, 000. 00	235, 000, 000. 00
Great Britain.....	3, 945, 000, 000. 00	3, 796, 000, 000. 00	.....	149, 000, 000. 00
Greece.....	15, 790, 000. 00	.....	15, 790, 000. 00	.....
Italy.....	1, 210, 000, 000. 00	1, 091, 000, 000. 00	.....	119, 000, 000. 00
Liberia.....	5, 000, 000. 00	.....	.....	5, 000, 000. 00
Roumania.....	6, 666, 666. 00	.....	5, 000, 000. 00	1, 666, 666. 00
Russia.....	325, 000, 000. 00	187, 729, 750. 00	.....	137, 270, 250. 00
Serbia.....	12, 000, 000. 00	10, 814, 697. 70	.....	1, 185, 302. 30
Total.....	8, 196, 576, 666. 00	7, 296, 039, 447. 70	220, 790, 000. 00	679, 747, 218. 80

Senator LA FOLLETTE. Now, I want to ask you, what securities have you taken for such loans or advances?

Secretary McADOO. We have the obligations of each Government.

Senator LA FOLLETTE. In what form?

Secretary McADOO. The most of them are demand obligations.

Senator LA FOLLETTE. You have not got them in the form of bonds issued by these Governments under acts of legislation?

Secretary McADOO. They are demand obligations of all these Governments.

Senator LA FOLLETTE. How are they executed?

Secretary McADOO. They are certificates of indebtedness, payable on demand, signed by the duly authorized representatives of their Governments in this country. The first liberty loan bill, as you will remember, authorized us to give to the foreign Governments to which loans were made in the bill the same maturities as are contained in the bill for the issuance of the bonds.

Senator LA FOLLETTE. You have not yet received those obligations in that form?

Secretary McADOO. They are all short-time obligations, containing the provision for their exchange into obligations of that kind when required.

Senator LA FOLLETTE. They are evidences of debt?

Secretary McADOO. They are the most formal kind of documents, duly certified by our Department of State.

Senator LA FOLLETTE. What were the advances made to Russia?

Secretary McADOO. \$187,729,750.

Senator LA FOLLETTE. When was that?

Secretary McADOO. Oh, that was shortly after we recognized Russia as a republic.

Senator LA FOLLETTE. That is, to the Kerensky government?

Secretary McADOO. That is to the Kerensky government. That represents the cash advances to them.

Senator LA FOLLETTE. And you have to show for that, what?

Secretary McADOO. Obligations signed by their ambassador here, who was authorized to execute them.

Senator LA FOLLETTE. Have any advances been made to the Russian Government since?

Secretary McADOO. No.

Senator LA FOLLETTE. Had advances been made to the Russian Government before that time?

Secretary McADOO. No; we had no authority to make any until after the revolution occurred, and the revolution occurred before we went into the war. The advances made to the Russian Government were between April 24 and November 15, 1917.

Senator LA FOLLETTE. Have the various foreign Governments that have received these loans kept up their interest payments upon them?

Secretary McADOO. Yes; they are paying the interest.

Senator LA FOLLETTE. In what form?

Secretary McADOO. Interest was paid on November 15 the last time.

Senator LA FOLLETTE. Is that paid merely as a deduction from the amount loaned to them subsequently?

Secretary McADOO. No.

Senator LA FOLLETTE. Or is it paid by actual cash?

Secretary McADOO. They are paying in cash out of credits already established here for them. That is a reasonable thing for them to do, and I assume they are doing the natural thing in the circumstances.

Since I gave my answer Mr. Leffingwell advises me that some of this interest has been paid out of other resources. Some of it has been paid out of credits we have established in their behalf.

Senator SMOOT. I made the statement that the amount of loans or credits to the foreign Governments was a little less than \$8,200,000,000.

Secretary McADOO. Yes, the credits; but the actual cash advanced on November 29, 1918, was \$7,296,039,447.70.

Senator SMOOT. Simply so it may not show in the record as incorrect, I want to have it appear that it was credits established for foreign Governments that I had reference to, which the Secretary's statement shows on November 29, 1918, totaled \$8,196,576,666.

Secretary McADOO. The credits that have been made are as you have stated, but they have drawn against those credits the amount I have stated.

Senator LA FOLLETTE. May I inquire whether the tabulated statement you have turned in for the record shows not only the total expenditures of the Government in each of the years we have been in the war, but also shows the war expenditures as distinguished from the total Government expenditures for each year? Do I make myself clear?

Secretary McADOO. We have done it for 1917 and 1918 as far as we could do it. It is in the Secretary's report.

Senator LA FOLLETTE. Please refer to the page.

Secretary McADOO. Page 3.

Senator TOWNSEND. I did not quite get that answer. Do you say there has been a separation between war expenditures and natural expenditures?

Secretary McADOO. It has been approximated.

Senator TOWNSEND. Will you give me the figures from the Secretary's annual report as compiled?

Assistant to the Secretary COOKSEY. The total ordinary and special expenditures for the fiscal year 1917 were \$2,026,000,000, in round figures. Assuming that the normal expenditures for that year would have been \$1,000,000,000, the war expenditures for the year were \$1,026,000,000. For 1918 the ordinary and special expenditures aggregated \$13,196,000,000. Assuming that the normal expenditures would have been \$1,000,000,000 for the year, the expenditures on account of the war were \$12,196,000,000.

Senator TOWNSEND. Can you make a fair approximation of the same data for this year, up to the present time? I suppose you haven't it in your report?

Secretary McADOO. You can take the total expenditures for the five months, as we have given it, and on the assumption that the normal expenditures would have been \$1,000,000,000, you can credit the five months at that rate.

Senator TOWNSEND. Then, that becomes a mere matter of computation which can be had from the figures which you have furnished. That is all I care to ask.

The CHAIRMAN. You have based your figures on prewar figures?

Secretary McADOO. Yes; on normal figures before the war.

The CHAIRMAN. Don't you think the civil expenses have increased?

Assistant to the Secretary COOKSEY. One billion dollars a year allows for an increase. That amount is, exclusive of postal expenditures payable from postal revenues.

Secretary McADOO. That is an assumption, of course.

The CHAIRMAN. It runs on an average of \$1,300,000 a month for all expenses when you include the postal funds?

Secretary McADOO. Those figures are of no special value, except to estimate what the normal expenditures of the Government would have been but for the war.

The CHAIRMAN. That is what I meant.

Secretary McADOO. Gentlemen, I hope you may finish with me, because I am under really very great pressure, and if there is anything more I should like to answer now.

The CHAIRMAN. If the gentlemen have nothing else to ask the Secretary he will be excused.

Senator LODGE. I have no other questions to ask the Secretary, but as he has referred to the Secretary of War I would like to know from him what obligations there are on the \$9,000,000,000 of contract money.

Secretary McADOO. I do not refer you to him. I merely said I know of no one who could tell you about that part of the business except the Secretary of War.

Senator LODGE. Well, he has not made in his estimates what part of that sum is included, and I would like to know of him. That you wouldn't want to say, Mr. Secretary, that the Secretary of War can say, I understand, as that is not proper.

Senator SMOOT. The Navy has the largest amount of any particular item.

Senator LODGE. And the Navy proposes to maintain its fleet.

Senator SMOOT. The President in his message recommends that that be maintained, and if that is done the Navy will have to have more money than is asked for in the estimates.

Senator PENROSE. I think it would be well to have Mr. Baker here this afternoon.

The CHAIRMAN. The Navy Department frequently asks and gets more appropriated than is actually spent, but there is a very wide difference between appropriations and expenditures in the case of the War Department.

Senator LODGE. Then, contracts authorized to the extent of \$9,000,000,000 are chiefly War Department contracts.

Senator SMOOT. \$2,000,000,000 of it is for the Navy.

Senator LODGE. I want to know how much of that is to be saved in the future.

The CHAIRMAN. If you desire, I will ask the Secretary of War to appear before the committee.

Senator SMOOT. Yes; we would like to have him come, and the Secretary of the Navy also. I want to know what the Navy has to meet.

Senator PENROSE. My constituents want to know about these matters of public concern, and I would like to have the information.

Senator LA FOLLETTE. Do not many of these contracts contain provisions that they may be canceled?

The CHAIRMAN. I understand that all of them can be canceled.

Senator LA FOLLETTE. Wouldn't it be a good idea to have the Secretary of the Navy to come and tell us about these propositions? They must have looked into it.

The CHAIRMAN. If you gentlemen desire to have him appear before the committee, all right.

Senator LA FOLLETTE. I think it would be very informing if we could get that information.

Senator JONES. The way the matter looks to me we can not get any very helpful information from either the Secretary of War or of the Navy. The Secretary of the Treasury has just informed us as to his method of arriving at the probable actual expenditures, and that method does not have its foundation in information which we can get from either the War or the Navy Department.

Senator LODGE. The Secretary's figures and his statement fail to show me what I want to know—that is as to the \$9,000,000,000 contract money, which will fail next year, how much of it may be saved, or how much will be used. But if you do not want to have the Secretary of the Navy and the Secretary of War to come here, all right.

Senator JONES. If it will be helpful to us, all right, have them here.

Senator PENROSE. A number of Senators say it will be helpful.

Senator JONES. I am trying to make a suggestion that may save time and be helpful.

Senator SMOOT. We want to know what we have to meet for 1920. The only way to find that out is to know how many of the contracts under this \$9,000,000,000 appropriation are going to be canceled, now that war is over.

The CHAIRMAN. If the Senators want the Secretaries of War and Navy I will ask them to appear before the committee, and we will now take a recess until 2.30 p. m.

(And, at 12 o'clock and 5 minutes p. m., the committee recessed until 2.30 p. m.)

TO PROVIDE REVENUE FOR WAR PURPOSES.

THURSDAY, DECEMBER 5, 1918.

UNITED STATES SENATE,
COMMITTEE ON FINANCE,
Washington, D. C.

The committee met, pursuant to adjournment, at 10.45 o'clock, a. m., Hon. F. M. Simmons presiding.

Present: Senators Simmons, Jones of New Mexico, Penrose, Lodge, Smoot, La Follette, Townsend, and Dillingham.

STATEMENT OF HON. NEWTON D. BAKER, SECRETARY OF WAR, WHO WAS ACCOMPANIED BY MAJ. GEN. H. M. LORD.

The CHAIRMAN. Gentlemen, the Secretary of War and Gen. Lord are here, and I presume you want to ask them some questions.

Senator SMOOT. Mr. Secretary, what the committee would like to know is, if you have that in hand—if not, we would like to have you secure it just as soon as possible—the amount of cancellations made of authorized contracts in appropriation bills for the fiscal year ending June 30, 1919; and I will call your attention to the items I have reference to, and see then whether you can tell offhand, whether you have the figures now, and if not, how soon you can get them. In the regular Army appropriation bill we authorized appropriations to the amount of \$1,858,332,801. Those were the authorized appropriations in that appropriation bill. Can you tell the committee the amount of contracts which have been entered into covering the amount appropriated authorizing those contracts?

Secretary BAKER. Gen. Lord, perhaps, can answer.

Gen. LORD. What was the appropriation, Senator?

Senator SMOOT. In the Army appropriation bill, with the contract authorization, amounting to \$1,858,332,801.

Gen. LORD. That is, contract authorizations without appropriations?

Senator SMOOT. Without appropriations.

Gen. LORD. We have more contracts authorizations——

Senator SMOOT (interposing). If you wish me to, I will take all of the items and then, perhaps, you have them combined.

Secretary BAKER. What we have, Senators, is an aggregate summary of all the authorizations made by the Congress from the beginning of the war until now, and the amount of contracts made against those authorizations, as well as the amounts made against specific appropriations. Gen. Lord has a good deal of detail matter here.

Senator PENROSE. Let the gentleman have an opportunity to state it.

Senator LODGE. What we want to get at is, how much we can save on those contracts authorized for which appropriations were not made, but are being made in 1919.

Secretary BAKER. I think Gen. Lord will be able to give you the best we have on that.

The CHAIRMAN. Senator Smoot, would it not be better to take it in the aggregate instead of taking the separate authorizations?

Senator SMOOT. I think it would be better, but I want to be sure that he covers the particular appropriation bills I have reference to, and I will name them.

The CHAIRMAN. Suppose he makes the statement in aggregate, and you can then check it up.

Gen. LORD. The total contractual obligations are being compiled this morning. They were submitted to me this morning, but they omitted one, and I told them to look up the data as to that. The Ordnance Department at the present time has existing contractual obligations since the beginning of the war of \$8,125,310,662; they have a total obligation of \$1,704,107,205.07. They report an estimated saving under these obligations of \$586,031,305.07, which leaves—

Senator SMOOT. What do you mean by "saving?"

Gen. LORD. They estimate that by cancellation they can save that much, which would leave a net outstanding obligation against their authorizations of \$1,118,076,000. No other obligations, as far as I can ascertain, are outstanding against any other authorizations, and all outstanding existing authorizations could be cancelled to-day.

Senator SMOOT. This is for the Ordnance Department only?

Gen. LORD. This is for the whole Army. That is the only outstanding obligation that I can find existing against any of the contractual authority.

Senator SMOOT. And these cancellations that you have made, do we understand that the Government can cancel them outright without paying any bonus to the manufacturers?

Gen. LORD. They can not. A cancellation automatically throws it into the Court of Claims. We propose to terminate them by supplemental contract with the contractor. If we can not agree, then it necessarily sends them to the Court of Claims.

Senator SMOOT. General, have you any idea what loss will be entailed on the part of the Government in those cancellations?

Gen. LORD. That is, how much we will have to pay?

Senator SMOOT. Approximately.

Gen. LORD. We do not know. They have covered the amount that they have reserved as to what they will have to pay. Those were the instructions issued. So that when we say we will save so much we are supposed to have left enough back under obligations to cover the cost of settlement, and, of course, it is approximate. There is no real basis on which to figure.

Senator SMOOT. In the \$586,031,305 that you are saving out of these obligations that you are under, do you estimate that that will cover whatever the manufacturer is justly entitled to on account of the cancellation of the contract?

Gen. LORD. Those were the instructions, that this saving should be met, and that they should not reserve anything or expect to pay anything out of obligated balances for the purpose of settling the contracts.

Senator SMOOT. That leaves \$1,813,600,000 that you expect then to continue contracts and have them completed as the contract calls for?

Gen. LORD. Not necessarily to continue the contracts; that is, to pay what they are delivering and that we are obliged to take and to settle the contracts.

Senator SMOOT. Those are the obligations that you are under to-day?

Gen. LORD. The net obligations.

Senator PENROSE. It does not follow, General, as I understand it, that you will have to pay them \$1,100,000,000, but you are obligated for that?

Gen. LORD. We are obligated for more than that.

Senator SMOOT. It is \$1,704,000,000 that you are obligated for and \$586,000,000 he has saved.

Senator PENROSE. What I want to get at is this: In respect of that \$1,704,000,000, is there any possibility of further reduction in that, or must you go on and pay that money out?

Gen. LORD. I hope that in making their estimates they have covered themselves. It might be possible that we might have to pay more than this. The average of the reductions in all the bureaus has been pretty close, about 40 or 50 per cent on their cancellations, by their terminations. But it is impossible at this stage to tell anything definitely. I have instructed them in figuring to be sure and cover themselves. Of course, we do want to make these settlements and have enough money to do it.

Senator LA FOLLETTE. In other words, as I understand it, you do not expect to reduce the outstanding obligations below \$1,118,076,000?

Gen. LORD. I do not think it will be safe to attempt to do it.

Senator SMOOT. The total of your contracts is \$8,125,310,662?

Gen. LORD. That is just ordnance.

Senator LODGE. I understood you to say that covered all.

Gen. LORD. I understand so, and if it is not true I will submit a statement to you later. I will run it down. There was some doubt about the Medical Department authorization. I was informed Sunday that the only one which had contractual obligations was ordnance, but the Medical Department submitted a somewhat confusing statement since then, and I am running that down, but I think I am justified in stating that the only obligation against any of the contractual authority that has been granted is this \$1,188,076,000.

Senator SMOOT. You understand that the General is making a distinction—contractual authority and the appropriations. What I want to get at is this: Of these contracts that you have entered into, amounting to \$8,125,000,000, the greater part of it or all of it will be paid from the regular direct appropriations of the Army?

Secretary BAKER. Your question is in error in this, if you will pardon me, if I understand it: The Ordnance Department has not made \$8,000,000,000 of contracts; the Ordnance Department has \$8,000,000,000 of authority to contract, under which it has contracted for \$1,700,000,000. That straightens it out.

Senator PENROSE. Under these contractual authorities, General, do you contemplate stopping now entirely or carrying out some of that contractual authority?

Gen. LORD. Nothing more.

Senator PENROSE. You will absolutely stop on the contractual authority where contracts have not already been made?

Gen. LORD. That is an act that you would take away from the various bureaus of the War Department, with the exception of the Medical Department. You can at the present time rescind all contractual authorities except that which has been actually obligated at the present time, except this \$1,118,076,000.

Senator PENROSE. And of these contracts that the Government is under obligation to carry on, what are they chiefly for?

Gen. LORD. Those in the Ordnance are munitions, powder, shells, and guns—everything that pertains to the Ordnance and materials.

Senator PENROSE. Big guns?

Gen. LORD. The nature of the contracts I do not know.

Senator PENROSE. I was just curious to know how far the carrying out of these purchases would be a permanent advantage to the Government and how many of them would be comparatively useless.

Senator SMOOT. So that I can get it straight in my mind: You said, as I understand you, General, that this \$8,125,000,000 authorized contracts was for Ordnance alone?

Gen. LORD. Ordnance alone.

Senator SMOOT. Then, I understand the Secretary to state that the obligations that you have really entered into are \$1,704,000,000 for the entire Army.

Secretary BAKER. Only for the reason that the Ordnance Department is the only department which has used contract authority for making contracts.

Senator SMOOT. With the possible exception of your Medical Department.

Secretary BAKER. This is susceptible of a perfectly clear statement. Let us state it clearly. The Congress has made various authorizations for several divisions of the War Department. The only division of the War Department which has used any of that contract authority in excess of appropriations actually made is the Ordnance Department. For the Ordnance Department, in addition to the appropriations of money, there was authorization for \$8,000,000,000 of additional contracts, of which the Ordnance Department has contracted up to \$1,700,000,000 on those contracts. It now estimates itself able to cancel or reframe the contracts so as to save \$600,000,000, leaving \$1,118,000,000.

Senator SMOOT. And no additional sum will be required by contractual obligations?

Secretary BAKER. No. Therefore, as Gen. Lord states it, it would be possible now for the Congress to rescind all contractual obligations with the solitary exception of the Ordnance Department, in which case it must rescind only so much as will leave \$1,118,000,000.

Senator PENROSE. You say Congress can now rescind this contractual authority. Is it practicable or desirable to rescind this contractual authority?

Secretary BAKER. We think it is both possible and desirable to rescind it all.

Senator PENROSE. I did not know whether some of the munitions for which you have made contracts will still be necessary.

Secretary BAKER. Of course, Senator, we can not tell what will be necessary. But the very large accumulation of ordnance materials which is provided for under existing contracts, for which money was appropriated, is so great that we think it is safe to say that we will not need to act on the authorization beyond what has already been contracted for.

The CHAIRMAN. General, do I understand you may possibly be able to reduce the amount of this \$1,118,000,000 hereafter?

Gen. LORD. We might possibly be able to reduce it or we may be obliged to increase it.

Senator SMOOT. A little more or a little less, that is all.

The CHAIRMAN. But I mean in the main that expenditure will have to be made?

Gen. LORD. In the main it will have to be made, and in the table here we have provided so.

In addition to that, if they should need any of this, with the ample funds and with the surplus balances we have on hand, certainly there would be no need to resort to contractual authority.

These statements have been hurriedly prepared. This statement I give as to ordnance was submitted by the Ordnance so that I know nothing more of its accuracy except that it was furnished by them.

Senator SMOOT. Have you any objections to having those tabulations printed in the record?

Gen. LORD. I will submit a table which will cover that. This [indicating] is a table which was prepared for Mr. Sherley, chairman of the House Committee on Appropriations.

Senator LODGE. Is this \$1,118,000,000 included in your estimates?

Secretary BAKER. No; I think not.

Gen. LORD. It is entirely outside the estimates.

Senator SMOOT. I was going to say that the estimates for the Army for the fiscal year ending June 30, 1920, is \$1,196,905,572.16. I have taken these from the Book of Estimates; and that amount is not included in any of the authorized appropriations.

Secretary BAKER. Apparently not.

Gen. LORD. No, nothing.

Senator SMOOT. Then this estimate for \$1,116,000,000 is based upon an Army of 500,000 men?

Secretary BAKER. Yes.

Senator SMOOT. And if perchance there should be kept in the Army until June 30, 1919, more than 500,000 men, then you would have to have an additional appropriation to cover it?

Gen. LORD. Undoubtedly.

Senator PENROSE. Mr. Secretary, I think I understood you correctly that this \$1,118,000,000 contractual obligations was not included in your estimate?

Secretary BAKER. It is not included, Senator.

Senator PENROSE. Ought not that to be included?

Secretary BAKER. It ought to be, Senator.

Senator PENROSE. Why was it not included?

Secretary BAKER. First, for the reason I have just given you. When we were making an estimate of the required amounts for a peace-time establishment of 500,000 men, the whole process of readjusting outstanding balances was in flux. We could not tell what we were going to be able to do at all. This was all studied out since, and this item will have to be added.

Senator PENROSE. It was such a large item, I thought it ought to be cleared up.

Secretary BAKER. At that time we really did not know what the outstanding uses of authority were.

Gen. LORD. That is an obligation out of current appropriations. The proposal as we have estimated here is that that should be paid out of money on hand, of which we have ample funds, which would obviate the necessity of throwing it into the 1920 estimate.

Senator SMOOT. That has reference to this \$1,118,000,000.

Senator ROBINSON. I understood him to say that in the beginning.

The CHAIRMAN. I understand now that it is not necessary to include this estimate of \$1,118,000,000 in the estimate for 1920 because you have other means of liquidating that?

Gen. LORD. We have ample funds to settle these obligations out of 1918-19 appropriations.

Senator PENROSE. With those funds you have appropriation to cover all contractual authority, as far as they go?

Gen. LORD. Every ordnance obligation is payable out of ordnance appropriations.

Senator SMOOT. What I had reference to was the authorization to make contracts. There was no appropriation made to cover them, and that is what I thought this whole thing covered.

Secretary BAKER. That is just what it does cover, Senator, but General Lord's suggestion now is that in addition to the authority granted to the War Department, large appropriations were made, which have not been wholly consumed, and that the balances from those appropriations of money will more than be enough to pay the contracts which must be paid under these authorizations.

Senator ROBINSON. Mr. Secretary, you made that statement in the beginning.

Secretary BAKER. Yes. And that may require the Congress to authorize diversions on balances from funds for which they were specifically appropriated in the Ordnance Department to purposes to which they were not specifically appropriated, but the net savings on appropriations will more than equal the amount to be paid on authorizations.

Senator PENROSE. I may be a little thick headed. Did I understand you to say distinctly that we were dealing with two propositions—one, appropriations already made for certain purposes; the other, contractual authorizations for which no appropriations had been made? I certainly understood it that way.

Secretary BAKER. That is exactly right, Senator.

Senator PENROSE. Then we have this amount of very great magnitude, over \$1,000,000,000, under contractual authority, for which I understood no appropriation had been made.

Secretary BAKER. That is right.

Senator PENROSE. And now the General states that he has money enough to pay for this billion odd amount of material, right on top of the assertion that no appropriation has been made for it.

Secretary BAKER. But appropriations were made for cognate purposes and have not been wholly expended. So that the balances for cognate purposes will be enough to pay this.

Senator PENROSE. Under the methods by which we have made appropriations during the war had the department authority to

transfer sums from one purpose to another, other than that directed by Congress?

Secretary BAKER. I can not say how wide that authority is.

Senator PENROSE. It will have to be reappropriated.

Gen. LORD. I understand these contractual authorities have, for the purposes for which the regular appropriations were being expended, exactly the same result. You did not appropriate the money, but you gave them authority to obligate themselves for more funds than the amounts given, but for identically the same purposes that the appropriations were made. So that it does not require any diversion of funds from one appropriation to another to meet these appropriations. The reason it was presented in this way is that we have figured out here the amount that we can save from obligations and the amount that we can save from those unobligated balances, in view of the fact that the intention has been expressed of re-covering into the Treasury the surplus funds that will not be actually needed for the balance of the current fiscal year; that is, a little short of seven months.

Senator PENROSE. General, to apply this money to this \$1,118,000,000 that you have referred to, of obligations that can not be avoided, does that require action by Congress or do you have authority to transfer these enormous funds appropriated for something else to discharge these obligations?

Gen. LORD. I do not understand that the authority was for anything else. It was for the same thing for which you have given them appropriations to expend.

Senator PENROSE. I fail entirely to see the significance of the Secretary's distinction between contractual authority, for which no appropriation exists, and obligations which were provided for by appropriations. I am not going to pursue the matter further, but I confess to a very vague idea about those methods.

The CHAIRMAN. I understand you to say that there is enough money already appropriated for 1919 to meet the requirements of that fiscal year and leave a balance sufficient to pay this billion dollars?

Gen. LORD. Yes.

The CHAIRMAN. If it is reappropriated. The question is whether it is necessary to reappropriate it. The money will be sufficient, but it may possibly require some reappropriation in order to authorize its application.

Senator ROBINSON. But that will not require the raising of additional sums. What we are concerned with here is the entertainment of the amount that will be necessary to raise in order to meet the obligations.

Senator LODGE. That is quite true, but you can not cut it off as saving of appropriations actually made, and then use it to pay the other contractual obligations and not make reappropriation. You must get that money somewhere.

Senator ROBINSON. I think it may be done if Gen. Lord's assumption is correct that an authorization of, say, a billion dollars was made, but the money being not immediately required an appropriation was only made for \$500,000,000 and his stating that further appropriations would be made when necessary. I do not think that would require reappropriation.

Senator LODGE. But you can not call that billion dollars a saving of money appropriated and then count it a second time on the money to be appropriated.

Secretary BAKER. If the committee has the time, I would like to see if I can not clear Senator Penrose's misunderstanding. Let me put a theoretical case, and not use accurate figures, and just show how the thing could be done. Suppose the Congress appropriated \$500,000,000 for Field Artillery, and an additional authority of \$500,000,000 for Field Artillery and Field Artillery munitions. And suppose that the Ordnance Department contracts for the \$500,000,000 and contracts for \$100,000,000 of the additional authority of \$500,000,000 and expects to save by cancellation on the original \$500,000,000 of appropriations for Field Artillery and Field Artillery munitions \$100,000,000. Then they would have \$100,000,000 saved out of appropriations for Field Artillery and Field Artillery munitions, which could be used to pay for Field Artillery and Field Artillery munitions supplied under contracts originally made under the authorization but not appropriated for.

Senator SMOOT. It would have to be reappropriated.

Secretary BAKER. I am not certain about that.

Senator SMOOT. I think it would.

Secretary BAKER. But it would be the same purpose.

Senator LODGE. You can not do this: You can not say that you save \$100,000,000 on money already appropriated, and then say you save \$100,000,000 on contractual appropriations.

Senator SMOOT. I got a misunderstanding of it in this way: I asked the Secretary if the appropriation of \$1,916,000,000 would be sufficient to take care of the obligations under contract of \$118,000,000 and he answered no, it would not; and then, of course, I thought that the appropriation would have to be made directly for this amount. But, now, let me go a step further, General. Can you tell the committee how much of this \$1,118,000,000 that you are obligated for will be expended by June 30, 1919?

Gen. LORD. I do not know.

Senator SMOOT. The reason I asked that question is we want to know, if we can find out, how much money we have got to raise for the fiscal year 1920. Therefore all that you would have to pay out of 1919 of this \$1,118,000,000 will be the amount that will be delivered before June 30, 1919.

Gen. LORD. Yes.

Senator SMOOT. Can you give the committee any idea how much of this will be actually delivered and paid out of the appropriations for the fiscal year ending June 30, 1919?

Gen. LORD. This \$1,118,000,000—if it is necessary to reappropriate they can not pay any out.

Senator SMOOT. Just leave as if we were not going to appropriate it. Tell the committee how much of this the manufacturer will have finished delivering to the Government and the Government obligated to pay?

Gen. LORD. I do not know, and I doubt if the Ordnance could tell you.

Senator SMOOT. Give a fair estimate.

Gen. LORD. I have not the slightest idea.

Secretary BAKER. Do not let us leave that in this shape. Senator Smoot, of course, must have that, and all we can give is the best

estimate the Ordnance Department can make. The major part of that, Senator Smoot, undoubtedly—at least a substantial part of it—will be payments made in the year 1919 in settlement of outstanding contractual obligations in solution of the contract.

Senator SMOOT. That is my point.

Secretary BAKER. I should think the Ordnance Department will be able to give you a forecast of how much will be spent in 1919 and how much will be spent in 1920, and Gen. Lord ought to ask the Ordnance Department to supply it to you.

Senator SMOOT. We have got all appropriations for the year 1919, expiring on June 30, 1919. Now, whatever is not delivered will be delivered and must be paid for out of the appropriations that will be made for 1920, and that amount I would like to know as near as the department can estimate it.

The CHAIRMAN. If none of this is paid out of the appropriations for 1920, would not that be the surplus of 1920 that will be carried over?

Senator SMOOT. Mr. Chairman, it is not carried over. The appropriations for every year, with the exception of continuing contracts—and they are very seldom made—expire currently; and therefore if it is not delivered by June 30, 1919, we have got to appropriate to cover them for 1920, and that is what I would like to know, if possible, so that I can figure in some way as to the amount of money we have got to appropriate for 1920.

Secretary BAKER. Do you reappropriate money for continuing contracts?

Senator SMOOT. Not for continuing contracts. But this is what we ought to know. We ought to know how the Treasury will be drawn upon, in order to find out whether they can meet these payments in that year?

Secretary BAKER. Clearly. I do not understand, Senator Simmons, that any of the figures Gen. Lord has been giving you have to do with the savings which will be made by the Ordnance Department or War Department generally on appropriations made. But, so far, he has dealt only with obligations on authorities.

Senator SMOOT. That is all we care about, because what we wanted to know is what we have to meet here some time in the future.

Senator PENROSE. I think it would be interesting, Mr. Chairman, if the committee could have a rough guess as to the saving on appropriations actually made, because that is helpful.

Secretary BAKER. Of course, the best that we can give you is a rough guess. But I would be very glad to have Gen. Lord give you that.

Gen. LORD. I will furnish the full statement about these contractual obligations. It is going to take some months to terminate and close these things and arrive at a settlement.

Senator SMOOT. I think so myself, and think perhaps 40 per cent of this will reach into the year 1920.

Senator PENROSE. Are you in a position to enlighten the committee on the amount of appropriations actually made that you contemplate using?

Gen. LORD. I have a statement here completed about midnight Sunday night. The total appropriations since April 6, 1917, to

bureaus of the War Department is \$24,335,281,638.62. This begins with the act of May 12, 1917, which, if you recall, was the regular Army appropriation bill estimated on a peace basis, which Congress failed to pass before adjournment, March 4, and passed subsequently May 12, and in that it was passed subsequent to the declaration of war it was not a war appropriation measure. Of this total amount appropriated since the declaration of war, there has been disbursed \$9,871,539,531.01. These are all actual disbursements.

The CHAIRMAN. Out of the \$24,000,000,000?

Gen. LORD. Out of the \$24,000,000,000, with the exception of moneys furnished overseas and under the system in operation there. There is no dead money accumulated in the hands of disbursing officers in France. So that we can safely consider this an actual disbursement.

Senator PENROSE. What was that amount, General?

Gen. LORD. Nearly \$10,000,000,000. This leaves a Treasury balance under the appropriations of \$14,463,742,107.61. Unpaid obligations to November 11, 1918, \$5,228,051,451.20, under this approximate estimate.

The CHAIRMAN. Unpaid obligations?

Gen. LORD. Outstanding obligations.

Senator PENROSE. Pay of the Army?

Gen. LORD. And ordnance contracts.

The CHAIRMAN. You mean the debt has been incurred?

Gen. LORD. Contractual and other indebtedness that we owe, that we have agreed to pay or obligated ourselves for.

The CHAIRMAN. And there is no chance of reducing that amount?

Gen. LORD. Yes, there is. This leaves an unobligated balance that is a free balance, against which no obligations lie, of \$9,235,690,656.41. From the unpaid obligations, there is an estimated saving of \$1,717,105,461.86. This is the saving under obligations.

Secretary BAKER. Out of the \$5,000,000,000.

Senator TOWNSEND. Do you explain how you get it?

Gen. LORD. We called upon the various bureaus to give us an estimate of how much they thought they could save by terminations of contracts, and this is the total. I have the amounts saved by each of the bureaus and estimates of it.

From the unobligated balance of \$9,235,690,656.41, it is estimated that we can save—that is, we will not need for the balance of the year for our current expenses, a total of \$5,475,303,470.85, making a total estimated savings through termination of contracts and from our unobligated balance of \$7,192,408,932.71.

Senator LODGE. Does that \$24,000,000,000, General, include the amount authorized but not appropriated?

Gen. LORD. No, sir.

Senator LODGE. Only the amount actually appropriated?

Gen. LORD. Yes, sir. But in this total there is accounted for in this \$1,118,000,000 as a net obligation. Accounting for that as paid, we show a saving of \$7,192,000,000.

Senator SMOOT. In addition to these figures, you also have here a statement estimating the expense for the maintenance and operation of the Army for the fiscal year 1920 of \$2,500,000,000?

Gen. LORD. That is about the total of the estimates submitted in the Book of Estimates.

Senator ROBINSON. Out of the sums already appropriated and available for the payment of obligations, authorizations not appropriated for may be made and still a balance will exist of seven billion and some hundred million dollars?

Gen. LORD. Savings to be made; yes.

Senator ROBINSON. That is a very illuminating statement, and I am very glad it was made.

Senator JONES of New Mexico. And that also contemplates the expenses paid up to the 1st of next July?

Gen. LORD. Up to June 30, 1919.

As I said before, I trust the bureaus have protected themselves. We have not had time—we can not tell, in connection with the termination of contracts, just how much we will save. We can not tell how much it is going to cost to settle with the contractors. It has been a hasty estimate, but I am taking for granted that the bureaus protected themselves.

The CHAIRMAN. Then they have been directed to protect themselves?

Gen. LORD. I cautioned them that in making this estimate they must, of course, provide for the settlement of accounts and for the maintenance of the Army.

The CHAIRMAN. For the balance of the year, and your estimate assumes that they have provided for themselves?

Gen. LORD. I have assumed that they have provided for themselves.

The CHAIRMAN. And after paying everything you estimate upon contracts for which money has been appropriated, and including the amounts you estimate you would have to pay on account of authorization you have \$7,000,000,000 left of the amount appropriated?

Gen. LORD. Yes, sir.

Senator SMOOT. General, I do not care what you are going to have left out of the appropriations. But I would like to know how much you are going to pay out from now until June 30, 1919, because that is what we deal with.

Here you say, "Unpaid obligations to November 11, 1918, \$5,228,251,451.20." That, no doubt, will have to be paid before June 30?

Gen. LORD. It is all out of 1919.

The CHAIRMAN. Senator Smoot, he said there was a saving on that of something over \$1,000,000.

Senator SMOOT. This is unpaid obligations?

Gen. LORD. We save out of that \$1,118,000,000.

Senator SMOOT. We will deduct the other. What I want to get at is, what we have got to meet up to June 30, 1919.

Gen. LORD. The Treasury withdrawals, you want?

Senator SMOOT. That is what I want, because when we begin to tax we have got to tax for the money to offset those obligations. Then your contractual obligation is \$1,118,000,000, and of that amount do you think 60 per cent would be a fair estimate?

Gen. LORD. Yes; I should think that would be quite large enough. I think that would be a fair estimate. I think you might arrive at this now and make just as close an estimate as anybody could make.

Senator SMOOT. That would be my opinion, offhand, of what it would amount to. My opinion is, and the General says that it is as

fair an estimate as could be made; that these contractual obligations on authorized contract of \$1,118,000,000 would be 60 per cent and that amount we would have to provide for during the fiscal year 1919. You see what I am getting at? I want to arrive at how much money we have got to draw out of the Treasury by that time.

Senator JONES. If that is done, then that would make a showing of additional saving on the \$7,000,000,000?

Senator SMOOT. I do not care if you save 50 per cent. What I want to get at is how much the Treasury has got to pay up to the fiscal year ending June 30, 1919.

Secretary BAKER. It would still leave the obligation to be paid.

Senator SMOOT. What is the estimate of the expenses of the War Department from November 11, 1918, until June 30, 1919?

Gen. LORD. You have a balance of \$14,500,000,000. You are going to save out of that \$7,192,000,000.

Senator SMOOT. That would leave \$7,250,000,000?

Gen. LORD. Yes. Now, your 60 per cent applied to that.

Senator SMOOT. The amount that will be actually withdrawn from the Treasury from November 11, 1918, until June 30, 1919.

Secretary BAKER. It is an assumed percentage.

Senator SMOOT. Of course, that is the only way we can arrive at anything here.

Gen. LORD. To illustrate that, for example, we have many outstanding transportation accounts which are very heavy. They will not be settled until next year sometime, and that is so with many of our other contracts.

The CHAIRMAN. Part of the money we provided in this bill for 1919 will not be paid until the latter part of the fiscal year or after the fiscal year.

Senator SMOOT. Will not be paid until 1920, and that is just what I am trying to get at, is to find what part of these appropriations for 1919 is going to reach over into 1920.

The CHAIRMAN. I am saying that is unfortunate, that the few last installments upon the war and excess profit tax will not be due until after the end of this fiscal year.

Senator SMOOT. They have got to be paid, no matter when they fall due.

Secretary BAKER. I am a little alarmed about 60 per cent. As I forecast the situation, it depends a good deal upon very uncertain elements how long we have to maintain an army abroad, how rapidly we can bring our soldiers home. Those are very uncertain questions, but the present plan of the War Department is to bring men home very rapidly, and between now and the 30th of June we will bring home a very large number of men and demobilize them. There are 1,700,000 men in the United States, the major part of whom will be demobilized before the 30th of June.

Senator SMOOT. Then I will say by reducing it 50 per cent?

Secretary BAKER. No; I have calculated the other way. I should say that 70 per cent was safer than 60.

Senator PENROSE. In the military force?

Secretary BAKER. No; I mean the total amount we will spend will be more likely 70 than 60 per cent. Then we will have to raise more money for the 1919 payments.

The CHAIRMAN. If I understand, the Secretary suggests that he will spend 70 per cent of this amount during the present fiscal year.

Secretary BAKER. That was my estimate. I think it safer than 60 per cent.

Senator SMOOT. Then that will cover all that will be drawn out of the Treasury of the United States as payments up to June 30, 1919?

Gen. LORD. I think that will be ample.

Senator TOWNSEND. How fast are the troops coming home now?

Secretary BAKER. Senator, they have not got started very fast, for a number of reasons. The troops are scattered all over France, and they are now being congregated on the shore of the Bay of Biscay, and troop transports are beginning to load up. But the transportation difficulties of France have been rather acute, and we have not struck our gait yet in getting them back.

Senator SMOOT. There is one more question I want to ask. The unpaid obligations to November 11, 1918, were \$5,220,000,000. What percentage, in your opinion, of this will have to be paid by June 30, 1919?

Gen. LORD. There will remain to be settled the difference between that and \$1,717,000. There is going to be an effort made to close those out as rapidly as possible, in the interest of the people at large. I am not so sanguine as some others that they will be successful in making immediate settlements on many of those obligations. But I should say not more than 60 per cent.

Senator SMOOT. That is, of the remaining \$3,500,000,000—60 per cent of that?

Gen. LORD. Yes. You figure that out of a balance of \$14,000,000,000.

The CHAIRMAN. As you dispose of these things which the Government has purchased or erected or has on hand in the shape of raw material not needed, by sale or otherwise, so as to get the cash, you turn that money into the Treasury and it becomes a part of the fund for the Army, does it not?

Secretary BAKER. I think not, sir. I think it goes into the Treasury and has to be reappropriated. [After a pause.] Gen Lord says I am in error.

Gen. LORD. There is a special enactment which says that the proceeds of sale revert to the appropriation from which the supplies were purchased.

Senator SMOOT. That passed in the last appropriation act.

The CHAIRMAN. So the salvage money will revert to the Treasury and constitute a part of the fund set aside for the Army.

Senator JONES of New Mexico. Then I would like to know whether Gen. Lord has figured into his estimate the use of salvage money?

Gen. LORD. No. That is an indeterminate proposition; that is not figured in here at all.

Senator SMOOT. So that if we should get any considerable amount of salvage money that would make a further reduction of the amount to be used in the termination of contracts?

Secretary BAKER. It would relieve the Treasury to that extent.

Senator SMOOT. I want to say, Mr. Chairman, that under the estimates that will be required on the obligations of the War Department between now and June 30, 1919, the amount will be \$5,760,778,822.43; that will be withdrawn from the Treasury.

Thereupon, at 11.55 o'clock a. m. the committee adjourned to meet at the call of the chairman.)